

Analyst: [REDACTED] S/CU

Approved For Release 2001/04/30 : CIA-RDP79T01049A002400040001-0 Project 49.3543)

OFFICE OF RESEARCH AND REPORTS

Chief of Staff

25X1A

General Ensign

SECRET

CIA INTERNAL USE ONLY

Series Number CIA/RR EP 62-7

Date of Document February 1962

76

Copy No.

Recipient

1 AD/RR

2 DDI

3 [REDACTED]

4 St/I/R

* 5 St/I

6 St/P [REDACTED]

7 St/PR

8 St/CS

9 - 11 Ch/G

12 St/FM

13 EIC/S

14, 15 D/A

16, 17 D/I

18, 19 D/M

20, 21 D/S

22 Ch/E

23 [REDACTED]

24 [REDACTED]

25 AD/OO

26 AD/BI

27 AD/SI

28 AD/NE

29 - 32 S/CU

33 - 42 [REDACTED] Rm. 2051 L Bldg.

43 - 75 Filed in St/P/C

44 [REDACTED]

50-53 23/CR for USIA

54-62 [REDACTED]

63-72 [REDACTED]

13 [REDACTED] OCR

73-74 [REDACTED] St/I/R

* 5 [REDACTED] oo/c for

43 [REDACTED]

1475 [REDACTED] oo/c

12 [REDACTED] oct -

20 Returned from O/S

49 [REDACTED] for Navy

18 Approve [REDACTED] CIA RDP79T01049A002400040001-0

47 CIA by for AFCTN - 5D2

27 Feb 62

20 Apr. 62.

25X1A

25X1C

25X1A

25X1A

25X1A

25X1A

25X1A

25X1A

25X1A

25X1A

25X1A

2728 9th Apr. 14 May 62

2 Apr 62

3 Apr 62

3 Apr 62

9 Apr 62

16 May 62

16 May 62

18 May 62

6 June 62

8 June 62

5 July 62

18 July 62

7 Aug. 62

20

DDI

7 Aug 62

46

Army War College via DD/P

10 Sept 62

Approved For Release 2001/04/30 : CIA-RDP79T01049A002400040001-0

7+76

[REDACTED]

Geo ST/IR 76/DDI 28 Dec 62

22

65/IR Jan CIA

14 Jan 63

[REDACTED]

1A

19

Rec'd from D/M

4 Nov 63

6;19

RC

22 Oct 64

6

From RC to

[REDACTED]

17 May 65

25X1A

~~SECRET~~

CUBAN FOREIGN EXCHANGE INCOME
1957-62

CIA/RR EP 62-7

February 1962

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

~~SECRET~~

9
JFK/6
N
~~3/86~~
~~3/86~~
28 FEB 1962

S-E-C-R-E-T

CONTENTS

	<u>Page</u>
I. Level and Sources of Foreign Exchange Earnings	1
II. Geographic Pattern of Foreign Exchange Earnings	3
III. Shifts in the Character of Foreign Exchange Earnings	4
IV. Prospects for Exchange Income in 1962	6
1. Convertible Exchange	6
2. Inconvertible Exchange	6

Appendix

Cuban Foreign Exchange Income, by Selected Country of Origin	9
---	---

Tables

1. Cuban Foreign Exchange Income, by Source	1
2. Cuban Foreign Exchange Income, by Geographic Origin	3
3. Cuban Foreign Exchange Income in 1960 and Convertible Exchange and Clearing Agreement Components in 1961	4

- iii -

S-E-C-R-E-T

S-E-C-R-E-T

CUBAN FOREIGN EXCHANGE INCOME*
1957-62

Since the advent of the Castro regime in January 1959, Cuba has experienced a major change in the level, the source, the geographic distribution, and the character of its foreign exchange income. The evolution of Cuban foreign exchange receipts for the period from 1957 through 1961 is summarized in Tables 1, 2,** and 3.***

I. Level and Sources of Foreign Exchange Earnings

The changes that have occurred in the level of total exchange income are shown in Table 1, which further depicts these changes in terms of the major sources of income. The steady decline in the level of foreign

Table 1

Cuban Foreign Exchange Income, by Source a/

Category	Million Current US \$				
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961 b/</u>
Exports	855	765	680	620	600
Sugar	655	590	490	500	500
Tobacco	50	50	55	50	40
Minerals	50	35	35	25	25
Miscellaneous	100	90	100	50	35
Tourism	60	55	40	10	Negl.
Long-term capital (net)	35	10	-40	Negl.	10
Total	<u>950</u>	<u>830</u>	<u>680</u>	<u>630</u>	<u>610</u>

a. Because data are rounded to the nearest \$5 million, components may not add to the totals shown.

b. Data for 1961 are estimates based on the latest available information.

* The estimates and conclusions in this publication represent the best judgment of this Office as of 1 February 1962.

** Table 2 follows on p. 3.

*** Table 3 follows on p. 4.

S-E-C-R-E-T

S-E-C-R-E-T

exchange receipts that is apparent from Table 1* stems from two general factors. The first factor was the deterioration of the world sugar market during the last years of the Batista regime and the first year of the revolutionary government, and the second factor is found in the policies and character of the Castro government.

Prices of sugar on the world market reached very high levels during the first half of 1957 but began to decline after the middle of the year. The decline continued through the first half of 1959, and Cuban foreign exchange income from exports of sugar fell correspondingly throughout the same period. Following 1959, Cuban exchange earnings from exports of sugar were stabilized largely as the result of large sales made to the Sino-Soviet Bloc. Expanded exports to the Bloc in 1960 and 1961, together with the premium price paid by the Bloc for its purchases in 1961, have combined to maintain the value of sugar sales in spite of the loss of the US market. Although the premium price paid by the Bloc is less than that formerly paid by US importers, the Bloc now imports about 60 percent more sugar than the US previously took. The total value of sugar exported to the Bloc is about \$400 million annually, or approximately 20 percent more than the former receipts from the US.

In spite of the stabilization of exchange income from sugar exports, Cuban total foreign exchange receipts continued to fall in 1960 and 1961. Policies of the Castro government that destroyed the tourist trade and isolated Cuba from its traditional sources of foreign capital were in large measure responsible for this outcome. As Table 1 indicates, the loss of the tourist trade was more significant than the termination of net capital imports, even though gross capital imports have been an important source of exchange for Cuba in the past. In the period 1955-58, gross capital imports averaged about \$100 million. Amortization, interest, and dividend payments also have been heavy, however, so that net capital inflow averaged only about \$25 million during the same period.

Cuba also experienced a loss of exchange income from its minor exports during 1960 and 1961. It seems clear that Cuban policy was responsible for the decline, although details on this component of Cuban trade are not yet available. This group, which is aggregated as "Miscellaneous" exports in Table 1, consists of a number of commodities such as fruits, vegetables, fish, coffee, cocoa, fibers, hides and leather, and residual fuel oil. About half of the decline in the exports of this group was accounted for by the reduction in trade with the US.

* P. 1, above.

S-E-C-R-E-T

S-E-C-R-E-T

II. Geographic Pattern of Foreign Exchange Earnings

The geographic distribution of Cuban foreign exchange receipts is shown in Table 2. In this table, all receipts from tourism and capital imports have been assigned to the US under the heading "Other receipts." Undoubtedly some tourist income and foreign capital came from Canada and Western Europe, but because the bulk was accounted for by the US, it was felt that all such receipts could be grouped together without significant distortion.

Table 2

Cuban Foreign Exchange Income, by Geographic Origin a/

Area	Million Current US \$				
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961 <u>b/</u></u>
US	590	580	480	340	35
Export receipts	490	510	475	330	35
Other receipts	100	70	5	10	0
Canada	10	15	10	5	10
Western Europe <u>c/</u>	175	120	90	80	40
Asia <u>c/</u>	65	60	35	25	45
Middle East	10	5	5	15	10
Africa	20	15	15	15	10
Latin America	25	20	30	10	10
Total Free World	<u>895</u>	<u>815</u>	<u>665</u>	<u>490</u>	<u>160</u>
Total Sino-Soviet Bloc <u>c/</u>	<u>45</u>	<u>15</u>	<u>15</u>	<u>150</u>	<u>450</u>
Grand total	<u>950</u>	<u>830</u>	<u>680</u>	<u>640</u>	<u>610</u>

a. Because data are rounded to the nearest \$5 million, components may not add to the totals shown.

b. Data for 1961 are estimates based on the latest available information.

c. For a breakdown by country, see the Appendix.

The shift in the geographic distribution of foreign exchange income that occurred following 1959 resulted primarily from the diversion of sugar exports from traditional markets to the Sino-Soviet Bloc. Other Cuban exports have continued to move to their normal markets with very

- 3 -

S-E-C-R-E-T

S-E-C-R-E-T

little diversion to Bloc countries. One important exception to this pattern is the minerals group. Since the end of 1960, all Cuban exports of nickel, copper, manganese, and chrome have been shipped to the Bloc. In June 1961 the Ministry of Foreign Trade of Czechoslovakia announced that the Bloc would purchase all Cuban mineral exports for the next 20 years.

III. Shifts in the Character of Foreign Exchange Earnings

The shift in direction taken by exports under the Castro government has sharply altered the character of Cuban foreign exchange receipts, as shown in Table 3. Before 1960, almost all exchange income was convertible currency.

Table 3
Cuban Foreign Exchange Income in 1960
and Convertible Exchange and Clearing Agreement Components
in 1961 a/

Million Current US \$						
Category	1960			1961 <u>b/</u>		
	Convertible Exchange	Clearing Agreement	Total	Convertible Exchange	Clearing Agreement	Total
Exports	505	115	620	150	445	595
Sugar	400	100	500	90	410	500
Tobacco	45	5	50	35	5	40
Minerals	25	Negl.	25	0	25	25
Other	40	10	50	25	5	30
Other income	10	Negl.	10	Negl.	10	10
Total	<u>515</u>	<u>115</u>	<u>630</u>	<u>150</u>	<u>455</u>	<u>605</u>

a. Because data are rounded to the nearest \$5 million, components may not add to the totals shown.

b. Data for 1961 are estimates based on the latest available information.

During the first 7 months of 1960, however, Cuba signed a series of long-term trade agreements with the Sino-Soviet Bloc that placed most of its trade with those countries on a barter basis. With the signing of these agreements and the expansion of exports to the Bloc during 1960,

S-E-C-R-E-T

Cuban exports became increasingly oriented toward inconvertible currency areas. Furthermore, there is considerable evidence that Cuban sugar sales to a number of countries of the Free World* during 1961 were executed with various Bloc countries acting as middlemen. Hungary probably was the most active Bloc country in this trade, but Czechoslovakia and East Germany also were involved.

Although these exports were shipped directly from Cuba to the final importer, it seems likely that payment was made through a Cuban clearing account with the Bloc country concerned rather than with the hard currency that Cuba normally earns for exports to the Free World. Although individual transactions of this type were relatively small, their total for all of 1961 could have amounted to as much as \$15 million. Finally, Cuba has directly negotiated barter transactions with Morocco, the UAR, and Chile, thus committing still more of its former hard currency exports to bilateral trading arrangements. Altogether, about \$45 million, or almost 30 percent, of Cuban exports to the Free World earned inconvertible rather than hard currency during 1961.

Although most Cuban trade with the Bloc is conducted by means of bilateral clearing arrangements, Cuba does receive some convertible exchange for its sugar exports to the Bloc. The trade agreements signed with the USSR in February 1960 and with Communist China in July 1960 provide for limited hard currency payments for sugar purchases. As the Bloc gradually has increased the amount of support that it is willing to extend to the Cuban economy, these agreements subsequently have been revised. Both the amount of sugar to be purchased and the price to be paid for it have increased substantially. Evidently the convertible exchange provision of the Soviet-Cuban agreement also has been expanded in favor of Cuba, although the details of the present arrangement are not known. In any event there is firm evidence that the USSR paid a minimum of \$30 million in convertible exchange to Cuba during 1961 and that Communist China paid at least \$2 million. It is probable that the actual figure is higher for both nations, particularly for the USSR, and that total payments in 1961 may well have been nearer \$50 million.**

Cuba receives some convertible currency from the Bloc, but it also has made some hard currency payments to the Bloc. During 1961, Cuba made such payments to Communist China, Czechoslovakia, and perhaps other Bloc countries. Payments totaling at least \$1.7 million were

* Morocco, Ceylon, Greece, Pakistan, Iraq, Finland, and possibly Iran and Switzerland.

** The estimate of convertible currency earnings for 1961 presented in Table 3, p. 4, above, was based on a minimum estimate of \$35 million in hard currency payments by the Bloc.

S-E-C-R-E-T

made to Communist China for credit to a special freight account. These transfers possibly were made to cover Chinese chartering of western vessels for the Cuban trade. Cuba also made payments to Czechoslovakia during 1961 amounting to a minimum of \$10 million. Most of this amount, and possibly all of it, evidently was made to the Chief Technical Directorate, the Czechoslovak arms exporting organization, and appears to represent Cuban payments for Czechoslovak military equipment. On the basis of these known transactions, the total Cuban hard currency payments to the Bloc for 1961 probably amounted to at least \$15 million.

IV. Prospects for Exchange Income in 1962

1. Convertible Exchange

Prospects for improving Cuban convertible exchange receipts during 1962 are doubtful at best. There is little chance that hard currency income can be increased significantly and a good chance that it will be reduced substantially. The outcome for 1962 hinges largely on the course of developments in the sugar market. Between 1953 and the end of 1961 the price of sugar on the world market was supported by the major exporting and importing countries through the International Sugar Agreement. Negotiations for the establishment of export quotas for 1962 under the agreement broke down in December of 1961, when Cuba demanded quota increases that were unacceptable to other members of the Agreement. Consequently, the world sugar market faces 1962 without formal regulation and with widespread fear of a price war.

Since the suspension of the quota system at the end of 1961, prices of sugar have fallen by more than 10 percent. By the second half of January 1962, world prices had declined to the lowest point in 20 years and were about 25 percent below the average for 1961. Cuba has announced that it will maintain its exports in 1962 at about the 1961 level. If other exporters exercise the same restraint, there may be hope that prices of sugar can be stabilized. It is probable, however, that competition for sales will increase as the year progresses and that further price declines are in prospect. Cuban exchange earnings from other exports probably will be much the same in 1962 as in the previous year.

2. Inconvertible Exchange

Cuba does not face the same uncertainty in its sugar trade with the Sino-Soviet Bloc as it does in the Free World market. The Bloc has promised to import 4.86 million tons of sugar annually through 1965 at a guaranteed price of 4 cents per pound. Unless this commitment is increased, Cuban exchange earnings from sugar exports to the Bloc will be about the same in 1962 as they were the year before.

S-E-C-R-E-T

It also is probable that Cuba will not increase its tobacco and miscellaneous exports to the Bloc during 1962. Such an increase would be at the expense of exports to hard currency markets, and, in view of the dim prospects in that area, it is doubtful that Cuba would be willing to make the sacrifice. On the other hand, exports of minerals to the Bloc can be expected to increase during 1962. Cuba has the potential to expand its exports of nickel considerably. Production problems resulting from shortages of spare parts and raw materials and marketing problems connected with the nature of the nickel concentrate produced at Moa Bay all indicate, however, that the actual increase in exports of nickel will be quite small relative to total Cuban exports. An increase of \$15 million in total mineral exports for 1962 probably would be the maximum that can be expected.

Cuba will increase its drawings on Bloc economic credits during 1962. How large these drawings will be is impossible to predict at this point, but Cuban inconvertible exchange income will be increased somewhat because of them.

- 7 -

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX

CUBAN FOREIGN EXCHANGE INCOME
BY SELECTED COUNTRY OF ORIGIN a/

Million Current US \$					
Area	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961 b/</u>
Western Europe c/					
United Kingdom	45	35	10	20	15
West Germany	35	10	15	10	5
France	10	10	10	10	Negl.
Belgium	10	5	5	5	Negl.
Netherlands	20	15	20	10	5
Italy	5	Negl.	Negl.	Negl.	Negl.
Spain	15	20	5	10	5
Switzerland	10	5	5	5	Negl.
All others	25	20	20	10	10
Total	<u>175</u>	<u>120</u>	<u>90</u>	<u>80</u>	<u>40</u>
Asia c/					
Japan	55	45	30	15	30
Ceylon	Negl.	5	Negl.	Negl.	10
All others	10	10	5	10	5
Total	<u>65</u>	<u>60</u>	<u>35</u>	<u>25</u>	<u>45</u>
Sino-Soviet Bloc d/					
USSR	45	15	15	100	295
Communist China	Negl.	Negl.	Negl.	35	95
Poland	Negl.	Negl.	Negl.	10	25
Czechoslovakia	Negl.	Negl.	Negl.	Negl.	25
East Germany	Negl.	Negl.	Negl.	5	5
All others	Negl.	Negl.	Negl.	Negl.	5
Total	<u>45</u>	<u>15</u>	<u>15</u>	<u>150</u>	<u>450</u>

a. Data are rounded to the nearest \$5 million.

b. Data for 1961 are estimates based on the latest available information.

c. Data for Western Europe and Asia represent exports only. Some long-term capital and tourist income probably was received from these areas, but it was relatively minor.

d. Totals for the USSR and Czechoslovakia in 1961 each include an estimate of \$5 million for drawings on economic credits. All other figures for the Bloc represent exports only.

- 9 -

S-E-C-R-E-T

SECRET



SECRET

SECRET SABRE

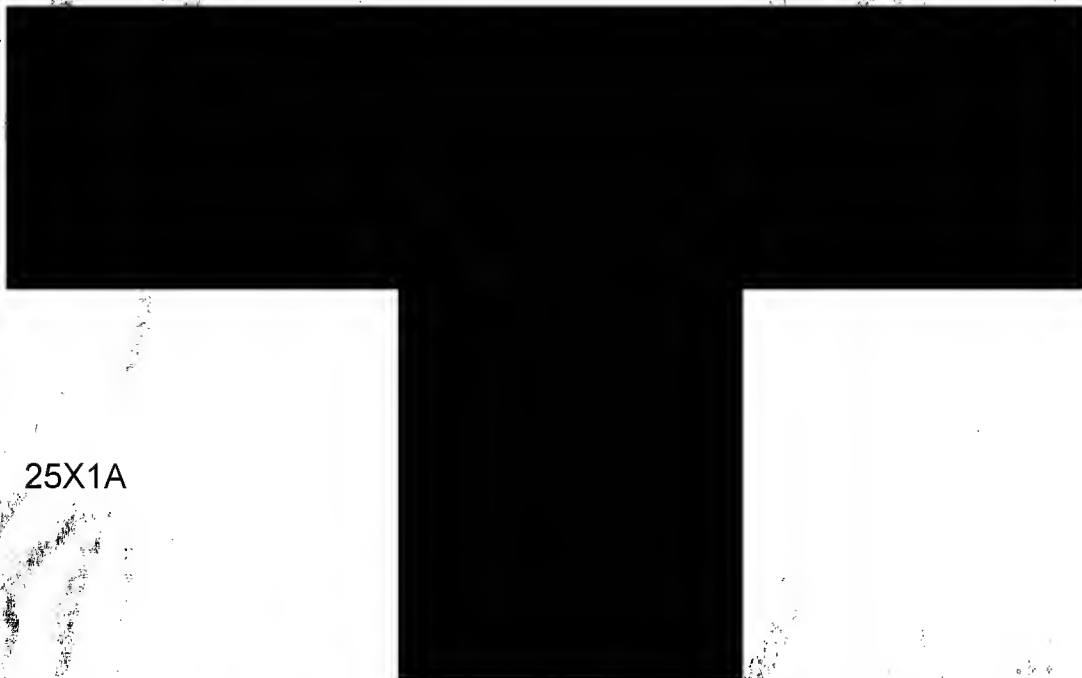
Chief, St/I/R

31 January 1962

ATTN :

Acting Chief, S/CU

25X1A



25X1A

2. This information has been used in the preparation of an Economic Intelligence Memorandum entitled Cuban Foreign Exchange Income, 1957-1962, OIR project 49.3543.

25X1A

Distribution:

Orig & 2 - St/I/R

1 - S/CU

25X1A

D/S/CU/RR [redacted] 5418 (31 January 1962)

7 Feb 62

T. [redacted] OK received to
[redacted] info as Secret.
Written confirmation to be
furnished by St/I/R.

SECRET SABRE